

Report
of the
Examination of
Tri County Mutual Town Insurance Company
Iron River, Wisconsin
As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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October 25, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2000, of the affairs and financial condition of:

TRI COUNTY MUTUAL TOWN INSURANCE COMPANY
Iron River, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995.
The current examination covered the intervening time period ending December 31, 2000, and
included a review of such subsequent transactions deemed essential to complete this
examination.

The Summary of Examination Results contains elaboration on all areas of the
company's operations. Special attention was given to the action taken by the company to satisfy
the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on
January 12, 1909, under the provisions of the then existing Wisconsin Statutes. The original
name of the company was the Farmers Mutual Town Insurance Company. Subsequent
amendments to the company's articles and bylaws changed the company's name to that presently
used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Ashland, Barron, Bayfield, Burnett, Douglas, Iron, Sawyer and Washburn

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium and assessment basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through 29 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All lines of business	15%

Agents do not have authority to adjust losses. Losses are adjusted by board members. Larger and more complex losses are adjusted by two outside firms. Adjusters receive \$75 for each loss adjusted plus 32 cents per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Richard Plunkett	Retired Insurance Salesman	Poplar, Wisconsin	2001
Martin Skaj	Retired Farmer	Mason, Wisconsin	2001
Willard Ogren*	Banker	Iron River, Wisconsin	2002
Verlyn Peterson	Retired Farmer	Poplar, Wisconsin	2002
Blaze Tody	Carpenter	Ashland, Wisconsin	2002
Debra Lulich	Insurance Agent	Mason, Wisconsin	2003
Ernest Nelson	Retired Standard Oil Dealer	Iron River, Wisconsin	2003

Directors who are also agents for the company are identified with an asterisk. Ms. Lulich is not an agent for the company.

Members of the board currently receive \$85 for each meeting attended and 32 cents per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2000 Salary
Debra Lulich	President	\$450
Blaze Tody	Vice-President	0
Willard Ogren	Secretary/Treasurer	0
Scott Ogren	Manager	0

The company has formally contracted with the Security State Agency, Inc., an affiliate of the Security State Bank, for the provision of management services since 1984. All day-to-day operations of the company are handled by officers and employees of the Security State Bank. Day-to-day administration of the company is managed by Scott Ogren. He is also an agent for the company. As of the date of this examination, the company paid the Security State Agency, Inc., a monthly management fee of \$4,456.76 plus monthly rent of \$296.87. As discussed in the "Affiliated Companies" section of this report, Willard Ogren is the president and majority owner of Security State Bank and owns 50% of Security State Agency, Inc.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee

Debra Lulich, Chair
 Willard Ogren
 Verlyn Peterson
 Richard Plunkett
 Blaze Tody

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	\$164,874	\$121,711	861	(\$ 21,801)	\$669,360	\$556,201
1997	164,567	89,216	853	10,137	685,624	559,721
1998	167,009	171,251	894	(73,439)	644,313	499,448
1999	166,482	172,373	887	(83,068)	548,938	415,780
2000	140,802	160,280	871	(101,347)	468,182	326,443

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Net
1996	\$263,345	\$164,132	\$556,201	47.3%	29.5%
1997	260,374	164,106	559,721	46.5	29.3
1998	274,640	172,473	499,448	55.0	34.5
1999	281,334	167,152	415,780	67.7	40.2
2000	282,106	143,732	326,443	86.4	44.0

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	\$121,711	\$83,011	\$164,874	74%	51%	125%
1997	89,216	85,863	164,567	54	52	106
1998	171,251	87,891	167,009	103	51	154
1999	172,373	90,615	166,482	104	54	158
2000	160,280	92,839	140,802	114	65	179

Gross premiums written increased 7% and policy count increased 1% during the period under review. About 37% of gross premiums written were ceded for reinsurance protection in 1996-98, but this increased to 41% ceded in 1999 and 49% ceded in 2000. As a result, net

premiums earned decreased 14.6% in the five-year period to \$140,802 in 2000. The expense ratio increased from 51% of net premiums written to 65%, partly due to the higher cost of reinsurance. Net losses and LAE incurred were over 100% of premiums earned in 1998-2000. The company had a net income in only one of the five years and the loss in 2000 was (\$101,347). Admitted assets decreased 30.1% in the five-year period to \$468,182. Surplus decreased 41.3% from 1996 and was at \$326,443 in 2000. The composite ratio has been over 100% each of the five years under examination, and was 179% in 2000.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2001
Termination provisions:	As of any January 1, by either party giving at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|--|
| Type of contract: | Class A Liability |
| Lines reinsured: | Nonproperty |
| Company's retention: | No retention, 100% Quota Share |
| Coverage: | 100% of each and every loss, including loss adjustment expense |
| Reinsurance premium: | 100% of premium written |
| Ceding commission: | 15% |
- | | |
|----------------------|---|
| Type of contract: | Class B, First Surplus |
| Lines reinsured: | Property |
| Company's retention: | \$100,000 |
| Coverage: | \$800,000 excess of \$100,000 |
| Reinsurance premium: | Pro rata portion of premium |
| Ceding commission: | 15% sliding scale
Minimum = 15%
Maximum = 35% |
- | | |
|----------------------|------------------------------------|
| Type of contract: | Class C-1, Excess of Loss |
| Lines reinsured: | Property |
| Company's retention: | \$20,000 |
| Coverage: | \$30,000 excess of \$20,000 |
| Reinsurance premium: | Current rate 22.5%
Minimum = 6% |

Maximum = 22.6%

4. Type of contract: Class C-2, Second Excess of Loss
Lines reinsured: Property
Company's retention: \$50,000
Coverage: \$50,000 excess of \$50,000
Reinsurance premium: 2.4% of net premium written, \$4,000 minimum
5. Type of contract: Class D/E, Stop Loss
Lines reinsured: All business written by company
Company's retention: 80% of net premiums written
Coverage: 100% of loss (excluding loss adjustment expenses) in excess of 80% of net premiums written
Reinsurance premium: 7% of net premiums written
Minimum = 7%
Maximum = 25%

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Tri County Mutual Town Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited in Checking Account	\$ 43,469			\$ 43,469
Cash Deposited at Interest	221,098			221,098
Bonds (at Amortized Cost)	62,288			62,288
Stocks or Mutual Fund Investments (at Market)	102,068			102,068
Premiums and Agents' Balances In Course of Collection	59,343		28,084	31,259
Investment Income Due or Accrued		1,881		1,881
Furniture and Fixtures	0			0
Reinsurance Recoverable on Paid Losses and LAE	5,534			5,534
Electronic Data Processing Equipment - Excluding Software (Cost Less Accumulated Depreciation	<u>585</u>	<u> </u>	<u> </u>	<u>585</u>
TOTALS	<u>\$494,385</u>	<u>\$1,881</u>	<u>\$28,084</u>	<u>\$468,182</u>

Liabilities and Surplus

Net Unpaid Losses	\$ 25,424
Unpaid Loss Adjustment Expenses	724
Fire Department Dues Payable	13
Net Unearned Premiums	102,085
Reinsurance Payable	13,326
Other Liabilities:	
Expense Related	
Accounts Payable	<u>838</u>
TOTAL LIABILITIES	142,410
Policyholders' Surplus	<u>325,772</u>
TOTAL	<u>\$468,182</u>

Tri County Mutual Town Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	<u>\$ 140,802</u>
Deduct:	
Net Losses Incurred	144,126
Net Loss Adjustment Expenses Incurred	16,154
Other Underwriting Expenses Incurred	<u>92,839</u>
Total Losses and Expenses Incurred	<u>253,119</u>
Net Underwriting Gain (Loss)	<u>(112,317)</u>
Net Investment Income:	
Net Investment Income Earned	<u>10,970</u>
Total Investment Income	<u>10,970</u>
Net Investment and Other Income	<u>10,970</u>
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	<u>(101,347)</u>
Net Income (Loss)	<u>(\$101,347)</u>

Tri County Mutual Town Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		\$561,900
1996		
Net income (loss)	(\$21,801)	
Net unrealized capital gains or losses	15,340	
Change in nonadmitted assets	<u>762</u>	
Change in surplus as regards policyholders for the year		<u>(5,699)</u>
Surplus as regards policyholders, December 31, 1996		556,201
1997		
Net income (loss)	\$10,137	
Net unrealized capital gains or losses	(5,367)	
Change in nonadmitted assets	<u>(1,250)</u>	
Change in surplus as regards policyholders for the year		<u>3,520</u>
Surplus as regards policyholders, December 31, 1997		559,721
1998		
Net income (loss)	(\$73,439)	
Net unrealized capital gains or losses	19,849	
Change in nonadmitted assets	<u>(6,683)</u>	
Change in surplus as regards policyholders for the year		<u>(60,273)</u>
Surplus as regards policyholders, December 31, 1998		499,448
1999		
Net income (loss)	(\$83,068)	
Net unrealized capital gains or losses	850	
Change in nonadmitted assets	<u>(1,450)</u>	
Change in surplus as regards policyholders for the year		<u>(83,668)</u>
Surplus as regards policyholders, December 31, 1999		415,780

2000

Net income	(\$101,347)	
Net unrealized capital gains or losses	18,251	
Change in nonadmitted assets	<u>(6,912)</u>	
Change in surplus as regards policyholders for the year		<u>(90,008)</u>
Surplus as regards policyholders, December 31, 2000		<u>\$325,772</u>

Reconciliation of Policyholders' Surplus

There were no changes made to surplus as a result of this examination.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Holding Company System—It is again recommended that the company file holding company reports pursuant to s. 617.11, Wis. Stat., and to include such information as specified by ch. Ins 40, Wis. Adm. Code.

Action—Compliance.

2. Holding Company System—It is recommended that the company comply with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code, as regards transactions within a holding company system.

Action—Compliance.

3. Invested Assets—It is recommended that the company hold its investments in the company's name as required by s. 610.23, Wis. Stat., that investments be kept under a custodial agreement or trust arrangement with a bank or bank and trust company as provided by s. 610.23, Wis. Stat., or that the company take possession of and hold its investments in a vault or bank safe deposit box as required by s. Ins 13.05 (4), Wis. Adm. Code.

Action—Noncompliance, see comments in the summary of current examination results.

4. Cash and Invested Cash—It is again recommended that the company diversify its investments such that no more than \$100,000 is invested in any one financial institution in accordance with the objectives of insurance company investment regulations pursuant to s. 620.01, Wis. Stat.

Action—Noncompliance, see comments in the summary of current examination results.

5. Reinsurance Recoverable on Paid Losses—It is recommended that the company account for reinsurance recoverable on paid losses and report such balance on the filed annual statement.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period. Several items were identified for additional comment.

- It was noted that the annual meeting minutes did not include the number of policyholders attending the annual meeting. It is recommended that the company include in the minutes the number of policyholders attending the annual meeting.
- The Secretary of the company does not keep the minutes of the meetings of the company as required in Section 1, Sub-Section 4 of the company's by-laws. The minutes are written and signed by a non-board member. It is recommended that the secretary maintain the minutes of all meetings of the company per the by-laws of the company.
- It was noted during the review of the minutes that the board listed a non-member as a member of the adjusting committee. That person was also noted to be able to act as an agent for a board member also assigned to the adjusting committee. It is recommended that only board members serve on committees of the board pursuant to s. 612.13 (4) Wis. Stat.
- An analysis of board members' attendance at meetings noted that one member missed 24% of the meetings in the time since the last examination. It is recommended that the company seek board members that can attend meetings regularly.
- The board elected to fill a vacancy on the board by appointing a new director on May 9, 1996. This position should have been voted on by the policyholders at the June 4, 1996 meeting according to Article III of the company's articles of incorporation. The board member was elected to the board by policyholders on June 3, 1997 one year later. It is recommended that the board replace a vacant position according to the company's articles of incorporation.
- The board met only in the first half of 1999 and 2000. This also happens to be the two worst years for the company. They did have meetings in the second half of 2001. It is suggested that the board continue to meet at least quarterly to keep aware of company results.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted. Willard Ogren, secretary-treasurer and director, owns or controls several companies affiliated with Tri-County, including the Security State Insurance Agency, which has a contract to manage Tri-County. During the review of the minutes it was noted that on each occasion the minutes did not reflect the president from abstaining on a vote to raise the president's salary. On another occasion during an October 5, 1998 meeting a board member was not noted as abstaining on a vote to pay companies under his control expenses incurred on behalf of the town mutual. It is recommended that directors abstain on issues where a conflict of interest exists pursuant to s. 612.18 Wis. Stat. It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Combined Professional Liability and Directors and Officers Liability	\$1,000,000 per claim \$1,000,000 aggregate

Commercial Property, General
Liability, and Inland Marine

\$ 5,600 personal property
\$1,000,000 liability per occurrence
\$1,000,000 liability aggregate
\$ 50,000 fire limit
\$ 5,000 medical expense
\$ 2,600 EDP equipment
\$1,000,000 general liability hired auto

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company does not have a formal inspection procedure for both new and renewal business. It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers after every use and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has not developed a written disaster recovery plan. It is recommended that the company develop a written disaster recovery plan.

Affiliated Companies

Tri-County Mutual Town insurance Company (Tri-County Mutual) is a member of an insurance holding company system as defined by s. Ins 40.01, Wis. Adm. Code, the principal controlling person of which is Willard Ogren, secretary-treasurer of Tri-County Mutual.

Pursuant to s. 600.03 (1), Wis. Stat., an "affiliate of a person means any other person who controls, is controlled by, or is under common control with, the first person. A corporation is an affiliate of another corporation, regardless of ownership, if substantially the same group of persons manage the two corporations."

Pursuant to s. 600.03 (13), Wis. Stat., "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of a person,

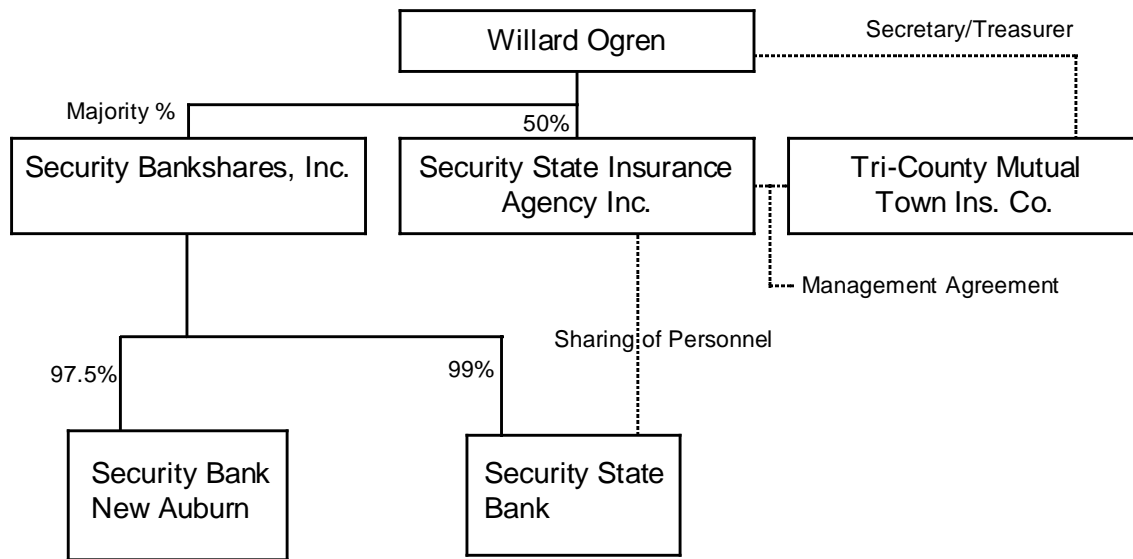
whether through ownership of voting securities, by contract, by company management, or otherwise.

In light of the statutes cited, Tri-County Mutual is affiliated with certain companies under the direction of its secretary-treasurer, Willard Ogren.

Willard Ogren owns 50% of the Security State Insurance Agency, Inc. The agency reported assets of \$707,074, liabilities of \$128,756, and stockholders' equity of \$578,318 at September 30, 2000. Net loss of (\$23,358) was reported for this same fiscal period. This agency has a contract to manage Tri-County Mutual for a flat monthly fee as was previously disclosed in this report. This agency also writes business for the company. Total writings for Tri-County Mutual represents 7% to 8% of the agency's total business.

Willard Ogren is president and majority stockholder of Security Bankshares, Inc., a bank holding company domiciled in Wisconsin. Security Bankshares, Inc., reported assets of \$18,359,373, liabilities of \$211,907, and stockholders' equity of \$18,147,466 for fiscal year ending September 30, 2000. Net income of \$2,018,857 was reported for this same fiscal period. Security Bankshares, Inc., is the majority stockholder of Security State Bank and Security Bank, New Auburn. Security State Bank reported assets of \$78,437,000, liabilities of \$67,920,000, and total capital and surplus of \$10,517,000. The bank had a net income of \$1,391,000 in the year 2000. Both subsidiaries are domiciled in Wisconsin. As of December 31, 2000, approximately 35% of Tri-County Mutual's admitted assets consisted of financial products of Security State Bank. In addition, Tri-County Mutual's manager, the Security State Insurance Agency, Inc., makes use of employees of Security State Bank in the conduct of Tri-County Mutual's operations. Affiliation with these corporate entities is through the common management control of Willard Ogren, augmented by financial and operational reliance on Security State Bank.

The following chart depicts the organizational structure of the holding company.



Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. The company has investments held by a broker. The company was also not in compliance with these requirements during the last exam.

It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 442,410
2. Liabilities plus 33% of gross premiums written	93,095
3. Liabilities plus 50% of net premiums written	71,866
4. Amount required (greater of 1, 2, or 3)	442,410
5. Amount of Type 1 investments as of 12/31/2000	<u>\$262,959</u>
6. Excess or (deficiency)	<u>(\$179,451)</u>

The company does not have sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment that does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has permission to hold certain investments, with a statement value of \$101,398, which are not in compliance with the new investment rule. There is no time limit on these assets.

ASSETS

Cash and Invested Cash

\$ 264,567

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	\$ 43,469
Cash deposited in banks at interest	<u>221,098</u>
Total	<u>\$264,567</u>

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of three deposits in two depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled \$13,341 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 2.78% to 5.87%. Accrued interest on cash deposits totaled \$841 at year-end.

During the review of these accounts it was noted that the company had maintained more than the \$100,000 FDIC insurance limit in one bank. On 82% of the days in 2000, the balances on the checking account statements were over the FDIC insurance amount. This bank has the checking account, money market and certificate of deposit. It has been recommended during the last two examinations. It is again recommended that the company diversify its investments such that no more than \$100,000 is invested in any one financial institution in accordance with the objectives of town mutual insurance company regulations pursuant to Ins. 6.20 (6)(b)(2) Wis. Adm. Code.

Book Value of Bonds

\$ 62,288

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. Bonds owned by the company are located in an account with their broker.

Bonds were reviewed by the examiners, by reviewing broker statement and advices. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers, except as regards custody.

Interest received during 2000 on bonds amounted to \$7,551 and was traced to cash receipts records. Accrued interest of \$1,039 at December 31, 2000, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **\$ 102,068**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stocks owned by the company are located in a safe deposit box.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. The calculation of the market value of Wisconsin Reinsurance Corporation was incorrect. The calculation included 10 preferred shares of Wisconsin Reinsurance Corporation. The company and CPA were notified of the error and agreed to correct on future filings with this office. No recommendation was made due to the amount being immaterial and the company and CPA agreeing to compute the value correctly in the future.

Dividends received during 2000 on stocks and mutual funds amounted to \$614 and were traced to cash receipts records. There were no accrued dividends at December 31, 2000.

Agents' Balances or Uncollected Premiums **\$ 31,259**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset. The high non-admitted portion, \$28,084, is from one agency. The agency has been chronically behind and the company is working on taking legal action to

take over the agency and sell to a different agent at one times the annual commission. If the agent does not wish to purchase, the company is going to sell the business to the Security Insurance Agency.

Investment Income Due and Accrued **\$ 1,881**

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Cash deposited at interest	\$ 842
Bonds	<u>1,039</u>
Total	<u>\$1,881</u>

Reinsurance Recoverable on Paid Losses **\$ 5,534**

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2000. A review of year-end accountings with the reinsurer verified the above asset.

Equipment, Furniture, and Supplies **\$ 0**

This asset consists of furniture and fixtures owned by the company at December 31, 2000. The asset is fully depreciated, so it is carried at \$0 on the balance sheet.

EDP Equipment **\$ 585**

This asset consists of \$585 of computer equipment owned by the company at December 31, 2000.

LIABILITIES AND SURPLUS

Net Unpaid Losses **\$ 25,424**

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	\$175,924	\$159,280	\$16,644
Less:			
Reinsurance Recoverable on Unpaid Losses	<u>150,500</u>	<u>150,500</u>	<u>0</u>
Net Unpaid Losses	<u>\$ 25,424</u>	<u>\$8,780</u>	<u>\$16,644</u>

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date, if any. The company's reserves were redundant so no adjustment was made.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **\$ 724**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is an estimate by the CPA using a percentage of losses based on historical data.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums **\$ 102,085**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using 50% of the net premium in force methodology.

Reinsurance Payable **\$ 13,326**

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions that occurred on or prior to that date.

Liability Contract	\$ 1,569
Class C1, C2 and D/E Adjusted Billing	6,700
Class C1, C2 and D/E December Billing	<u>5,057</u>
	<u>\$13,326</u>

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Fire Department Dues Payable **\$ 13**

This liability represents the fire department dues payable at December 31, 2000.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Accounts Payable **\$ 838**

This liability represents bills that were payable at December 31, 2000. Supporting documents verified this amount.

V. CONCLUSION

Tri-County Mutual Town Insurance Company is a town mutual insurer covering an eight county area. The company has been in business for more than 92 years providing property and liability insurance to its policyholders.

Since the prior examination of December 31, 1995 the company's assets have decreased 30.1% from \$669,360 in 1995 to \$468,182 in 2000. Liabilities have increased 19.9% from \$118,825 in 1995 to \$142,410 in 2000. Surplus has decreased 41.9% from \$561,900 in 1995 to \$326,443 in 2000. Policy counts increased slightly in the period from 861 policies in 1995 to 871 policies in 2000. The company experienced losses four out of the five years under examination. The loss in 2000 was (\$101,347).

Actions taken by company to improve results include increases to premium rates, policy fees and other charges. The board has tentatively approved another increase for next year if considered necessary. In addition to actions already taken, tougher underwriting standards and better loss control measures are being considered to help make the company more profitable.

The examination resulted in eleven recommendations, two of which are repeat recommendations from the last exam. The recommendations and suggestions are listed in the next section of this report..

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Corporate Records—It is recommended that the company include in the minutes the number of policyholders attending the annual meeting.
2. Page 16 - Corporate Records—It is recommended that the secretary maintain the minutes of all meetings of the company per the by-laws of the company.
3. Page 16 - Corporate Records—It is recommended that only board members serve on committees of the board pursuant to s.l 612.13 (4) Wis. Stat.
4. Page 16 - Corporate Records—It is recommended that the company seek board members that can attend meetings regularly.
5. Page 16 - Corporate Records—It is recommended that the board replace a vacant position according to the company's articles of incorporation.
6. Page 16 - Corporate Records—It is suggested that the board continue to meet at least quarterly to keep aware of company results.
7. Page 17 - Conflict of Interest—It is recommended that directors abstain on issues where a conflict of interest exists per s. 613.18 Wis. Stat.
8. Page 17 - Conflict of Interest—It is also recommended that the minutes reflect the director(s) that abstain when a conflict of interest exists.
9. Page 18 - Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.
10. Page 19 - Disaster Recovery Plan—It is recommended that the company develop a written disaster recovery plan.
11. Page 21 - Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.
12. Page 23 - Cash and Invested Cash—It is again recommended that the company diversify its investments such that no more than \$100,000 is invested in any one financial institution in accordance with the objectives of town mutual insurance company regulations pursuant to Ins. 6.20 (6)(b)(2) Wis. Adm. Code.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Sarah Salmon of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge